

**Fair Return
& Value
Recommendations**

Subcommittee Proposing Recommendation:

Fair Return and Value (Valuation) Subcommittee

RECOMMENDATION:

RPC recommends the DOI pursue rulemaking to define “Federal Gas Index Pricing” with a Marketable Condition Concept, consistent with the hypothetical presentation titled “Gas Index Pricing Options,” dated August 2018, as presented to the RPC meeting of September 13, 2018.

Nature of change:

The Change would be a regulatory change requiring rulemaking including any required tribal or other consultation and notification. The RPC recommends that the additional information about marketable condition supplement the February 2018 RPC recommendation.

Background:

This recommendation follows the RPC’s February 28th recommendation to

“Pursue rulemaking to define simplified index price rules for Federal gas.” The repealed 2017 Federal valuation rule (“Valuation Rule”) included an index pricing provision for Federal gas production. While energy companies generally supported the concepts of an index price, the specific price provisions contained within the Valuation Rule were not widely supported due to concerns that (1) the highest reported price was unachievable and reflected index points not representative of how the gas was actually marketed; (2) transportation cost deductions were unreasonably low; and (3) the resulting price could only be used for non-arms-length sales types.

The Working Group (WG) was charged with exploring the potential to combine the index price and a standard table for allowances that addresses the issues associated with the index pricing provision in the repealed Valuation Rule and more effectively achieves a simple, certain, clear and concise index price solution.

The WG noted the relative administrative ease involved with use of the 2000 Indian Gas Valuation Rule. It was also noted within the WG discussions that the adoption of a simplified index price has the potential to address many of the separate issues regarding “marketable condition” currently consuming significant resources. The WG also realizes there may be a need to have additional valuations options that could be favorable to different payors depending on their resources and ability to define all the components in the equation.

Key factors to be addressed by this rule would be:

- The concept will have valuation options. The level of complexity will be determined by the design of the model.
- A standardized average single price (per defined geographic area) acceptable to both industry and DOI/ONRR

- Calculations by ONRR from generally accepted index price publications or other acceptable market-sensitive source
- Price applied to wellhead (or royalty measurement point) MMBTUs
- Incorporate reasonable geographically sensitive transportation deductions
- Apply price to all Federal gas sales types

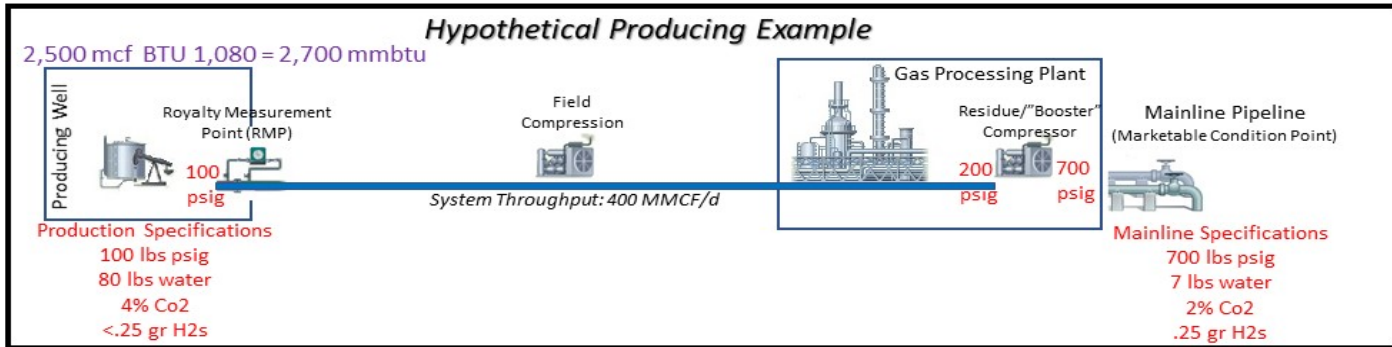
Analysis:

Having the options for determining the valuation method would provide a choice. Payors would determine the method to pay and also have a level of confidence in the valuation process that would withstand audits and be compliant.

The recommendation is for Federal Gas only.

An economics review should provide support for the concept.

Gas Index Pricing Options – August 2018



Required Valuation Components

- A. Market Index Price \$3.75/mmbtu
- B. Average Field Transportation (\$0.35/mmbtu)
- C. Average Disallowed System UCA: 55%
- D. BTU Bump Factor (from Table, based on BTU) 4%
- E. Simple Published Price (A – (B * (1-C)) = \$3.5925
- F. Marketable Condition Standardized Cost Table (see below)

Field Compressions	Rate per MMBTU	Boosting Compression	Rate per MMBTU	Dehydration	Rate per MMBTU	CO2 Treating	Rate per MMBTU	H2S Treating	Rate per MMBTU
0-100 psi	\$0.020	0-100 psi	\$0.005	100,000	\$0.020	0-.5%	\$0.020	.00-.005 gr	\$0.005
101-200psi	\$0.025	101-200 psi	\$0.010	200,000	\$0.025	.6%-1.0%	\$0.025	.006-.01 gr	\$0.075
201-300psi	\$0.035	201-300 psi	\$0.020	300,000	\$0.035	1.0%-1.5%	\$0.035	.01-.015 gr	\$0.085
301-400psi	\$0.040	301-400 psi	\$0.025	400,000	\$0.040	1.6%-2.0%	\$0.040	.01-.015 gr	\$0.090
401-500psi	\$0.045	401-500 psi	\$0.030	500,000	\$0.045	2.1%-2.5%	\$0.045	.015-.02 gr	\$0.095
501-600psi	\$0.050	501-600 psi	\$0.035	600,000	\$0.050	2.6%-3.0%	\$0.050	.021-.03 gr	\$0.100
	\$0.050	+	\$0.030	+	\$0.040	+	\$0.040	+	\$0.00 = \$0.16

Note: All of the Required Valuation Components to the right plus the elements of the MC Cost Table must be calculated or negotiated by the RPC Team(s)

Valuation Options

1A

Simple ONRR Published Price With BTU Bump
Formula: Volume X E X (1.0 + Bump)
2,700 X \$3.5925 X 1.04 = \$10,087.74
X .125 Royalty Rate
\$1,260.97 ONRR Royalty

1B

Simple Industry Calculated Price With BTU Bump
Formula: Volume X (A – (B X (1-C)) X (1.0 + Bump))
2,700 x (\$3.75 – (\$0.35 x 45%)) x 1.04 = \$10,087.74
X .125 Royalty Rate
\$1,260.97 ONRR Royalty

2

Calc'd Price using Standardized Table w/ Bump
Formula: Volume X (A – (B - F) X (1.0 + Bump))
2,700 x (\$3.75 – (\$0.35 - \$0.16)) x 1.04 = \$9,996.49
X .125 Royalty Rate
\$1,249.56

Optional

3

Gross Proceeds
Calculate value and allowances per current regulations

Subcommittee Proposing Recommendation:

Fair Return and Value (Valuation) Subcommittee

Recommendation:

To promote transparency, the RPC recommends that DOI publish well, lease, and monthly production data for royalty-bearing resources on Federal lands. Tribes should have the ability to opt-in. This information should not include data prohibited by law from being released.

Nature of change:

This recommendation lines up with the President's Managements Agenda (PMA) published March 20, 2018, for promoting transparency and to making data available in a useful format.

The change is within the discretion of the DOI under existing authorities. It will likely require additional resources and funding.

Background:

Currently there are multiple levels of data available online for royalty-bearing offshore and onshore. Providing data views to the lowest available detail would allow users access to public non-confidential information and would also promote transparency.

Data to be provided should be well, lease, and monthly production information as reported on the Oil and Gas Operations Report (OGOR) parts A, B, and C.

The BSEE website has online queries for well and OGOR A, B, and C information that are specific to offshore only. Well data has lease and producing interval information along with effective dates. Well information is updated daily and OGR's are updated monthly.

The Natural Resources Revenue Data (NRRD) has annual data for all natural resources at a state/county level. Not the level of detail needed for use as a resource for data mining and audits.

Various State agencies have production and well information available, but not at the level needed for supporting a federal review.

Analysis:

A Data Center (DC) would provide the public the ability to view federal onshore and offshore data in one environment. The data center should have functionality for viewing and extracting PDF reports, ASCII files, and downloadable CSV files.

Industry has been requesting to view other OGOR reports to support and respond to audit requests and data mining that may cover Leases and Agreements that have multiple operators or a single operator that is not the company being asked for information. There are also take in-kind scenarios that require access to other operator reports.

Online data allows any reporter to view data and proactively ensure the accuracy of the data they are responsible for reporting. It also reduces the risk of data discrepancies and data requests.

Currently when needed, reporters must request ONRR to provide extracts of data during reviews of Leases and Agreements. They rely on ONRR to extract and provide the data instead of the reporter being able to locate the information themselves.

Current Data sources available are aged and not addressing the need for industry to respond to audits and data requests without ONRR extracting and providing data on other operator's data when needed. These include:

- ONRR Data Warehouse Portal – secured site with proprietary data
- BSEE Data Center – Offshore data
- Natural Resources Revenue Data – annual data for all natural resources at a state/county level
- State Websites – monthly production data, not consistent or aligned with federal reporting